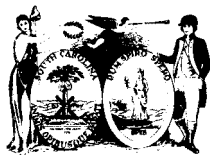


State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200  
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA  
STATE AUDITOR

(803) 253-4160  
FAX (803) 343-0723

July 24, 2002

Ms. Linda A. Holtzscheiter, Reimbursement Manager  
Mariner Post-Acute Network  
15415 Katy Freeway, Suite 800  
Houston, Texas 77094

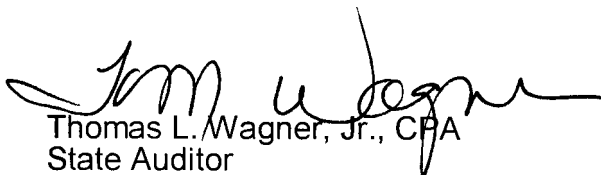
Re: AC# 3-STG-J9 – GranCare South Carolina, Inc., St. George Health Care Center, Inc.

Dear Ms. Holtzscheiter:

The accompanying report has been prepared by our office based on your Medicaid Financial and Statistical Report submitted to the Department of Health and Human Services for the cost report period October 1, 1998 through September 30, 1999. That report was used to set the rate covering the contract period beginning October 1, 2000.

We are recommending that the Department of Health and Human Services certify an accounts receivable to recover amounts due as a result of the rate change shown on Exhibit A. You will be notified of repayment terms by that Agency.

If you take exception to this report in any manner, you have the right to appeal in accordance with the Code of Laws of South Carolina, 1976 as amended, Title 44, and Department of Health and Human Services Regulation R.126-150, and you must respond in writing within thirty (30) calendar days of the date of this letter. This written response must address the specific items in the report being appealed, and must be directed to the Appeals and Hearings, Department of Health and Human Services, Post Office Box 8206, Columbia, South Carolina 29202-8206. Any correspondence should include the control number appearing on Exhibit A of this report.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman  
Mr. Jeff Saxon  
Mr. Joseph P. Hayes

**GRANCARE SOUTH CAROLINA, INC.  
ST. GEORGE HEALTH CARE CENTER, INC.**

**ST. GEORGE, SOUTH CAROLINA**

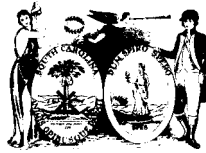
**CONTRACT PERIOD  
BEGINNING OCTOBER 1, 2000  
AC# 3-STG-J9**

**AGREED-UPON PROCEDURES REPORT  
ON CONTRACT  
FOR  
PURCHASE OF NURSING CARE SERVICES  
WITH  
STATE OF SOUTH CAROLINA  
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

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# State of South Carolina



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### INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

May 30, 2002

Department of Health and Human Services  
State of South Carolina  
Columbia, South Carolina

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with GranCare South Carolina, Inc., St. George Health Care Center, Inc., for the contract period beginning October 1, 2000, and for the twelve month cost report period ended September 30, 1999, as set forth in the accompanying schedules. The management of GranCare South Carolina, Inc., St. George Health Care Center, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with the attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

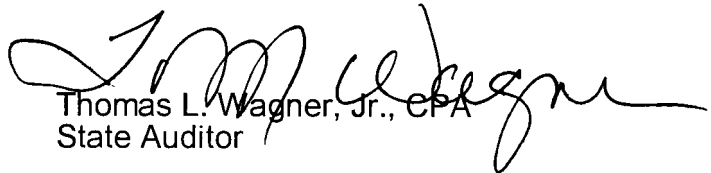
The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by GranCare South Carolina, Inc., St. George Health Care Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. Our findings as a result of these procedures are presented in the Adjustment Report, Summary of Costs and Total Patient Days, and Cost of Capital Reimbursement Analysis sections of this report.
2. We recomputed the Computation of Reimbursement Rate using the adjusted costs and calculated the rate change in accordance with the provisions of the contract between the Department of Health and Human Services and GranCare South Carolina, Inc., St. George Health Care Center, Inc. dated as of October 1, 1994 as amended. Our findings as a result of these procedures are presented in the Computation of Rate Change and Computation of Adjusted Reimbursement Rate sections of this report.

Department of Health and Human Services  
State of South Carolina  
May 30, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which is the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

  
Thomas L. Wagner, Jr., CPA  
State Auditor

**ST. GEORGE HEALTH CARE CENTER, INC.**

Computation of Rate Change  
For the Contract Period  
Beginning October 1, 2000  
AC# 3-STG-J9

10/01/00-  
09/30/01

Interim Reimbursement Rate (1)	\$91.54
Adjusted Reimbursement Rate	<u>87.42</u>
Decrease in Reimbursement Rate	\$ <u><u>4.12</u></u>

(1) Interim reimbursement rate from the South Carolina Medicaid Management Information System (MMIS) Provider Rate Listing dated January 25, 2002

**ST. GEORGE HEALTH CARE CENTER, INC.**

Computation of Adjusted Reimbursement Rate  
For the Contract Period October 1, 2000 Through September 30, 2001  
AC# 3-STG-J9

	<u>Incentives</u>	<u>Allowable Cost</u>	<u>Cost Standard</u>	<u>Computed Rate</u>
<u>Costs Subject to Standards:</u>				
General Services		\$38.72	\$53.99	
Dietary		8.71	10.56	
Laundry/Housekeeping/Maintenance		<u>6.95</u>	<u>9.12</u>	
Subtotal	\$ <u>5.16</u>	54.38	73.67	\$54.38
Administration & Medical Records	\$ <u>.43</u>	<u>10.77</u>	<u>11.20</u>	<u>10.77</u>
Subtotal		65.15	<u>\$84.87</u>	65.15
<u>Costs Not Subject to Standards:</u>				
Utilities		2.38		2.38
Special Services		.93		.93
Medical Supplies & Oxygen		3.51		3.51
Taxes and Insurance		2.36		2.36
Legal Fees		<u>.05</u>		<u>.05</u>
<b>TOTAL</b>		<u>\$74.38</u>		74.38
Inflation Factor (3.20%)				2.38
Cost of Capital				8.05
Cost of Capital Limitation				-
Profit Incentive (Max. 3.5% of Allowable Cost)				.43
Cost Incentive				5.16
Effect of \$1.75 Cap on Cost/Profit Incentives				(3.84)
Nurse Aide Staffing Add-On 10/01/99				.57
Nurse Aide Staffing Add-On 10/01/00				<u>.29</u>
ADJUSTED REIMBURSEMENT RATE				<u>\$87.42</u>

**ST. GEORGE HEALTH CARE CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1999  
AC# 3-STG-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
General Services	\$1,193,880	\$ -	\$ -	\$1,193,880
Dietary	284,229	-	15,610 (5)	268,619
Laundry	27,381	-	-	27,381
Housekeeping	113,519	476 (6)	476 (7)	113,519
Maintenance	73,781	301 (6)	303 (4) 300 (7)	73,479
Administration & Medical Records	409,478	339 (6)	77,654 (4) 223 (7)	331,940
Utilities	73,285	1 (4) 298 (6)	299 (7)	73,285
Special Services	28,778	-	-	28,778
Medical Supplies & Oxygen	113,023	-	4,675 (5)	108,348
Taxes and Insurance	103,322	690 (4) 414 (6)	31,458 (3) 291 (7)	72,677
Legal Fees	4,735	6 (6)	3,153 (4) 1 (7)	1,587



**ST. GEORGE HEALTH CARE CENTER, INC.**  
Summary of Costs and Total Patient Days  
For the Cost Report Period Ended September 30, 1999  
AC# 3-STG-J9

<u>Expenses</u>	Totals (From Schedule SC 13) as <u>Adjusted by DH&amp;HS</u>	Adjustments		<u>Adjusted Totals</u>
		<u>Debit</u>	<u>Credit</u>	
Cost of Capital	305,414	808 (6)	12,928 (1) 21,055 (2) 22,950 (4) 451 (7) <u>531 (8)</u>	248,307
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Subtotal	2,730,825	3,333	192,358	2,541,800
 Ancillary	 63,150	 -	 -	 63,150
 Non-Allowable	 250,136	 12,928 (1) 21,055 (2) 31,458 (3) 103,369 (4) 20,285 (5) 2,041 (7) <u>531 (8)</u>	 2,642 (6)	 439,161
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Operating Expenses	<u>\$3,044,111</u>	<u>\$195,000</u>	<u>\$195,000</u>	<u>\$3,044,111</u>
 Total Patient Days	 <u>30,835</u>	 <u>-</u>	 <u>-</u>	 <u>30,835</u>
 TOTAL BEDS	 <u>88</u>			

**ST. GEORGE HEALTH CARE CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1999  
AC# 3-STG-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
1	Accumulated Depreciation	\$ 38,919	
	Other Equity	62,649	
	Nonallowable	12,928	
	Fixed Assets		\$101,568
	Cost of Capital		12,928
	To adjust fixed assets and related depreciation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
2	Nonallowable	21,055	
	Cost of Capital		21,055
	To remove amortization expense related to organization and loan cost State Plan, Attachment 4.19D		
3	Nonallowable	31,458	
	Taxes and Insurance		31,458
	To adjust liability insurance expense HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
4	Utilities	1	
	Taxes and Insurance	690	
	Nonallowable	103,369	
	Maintenance		303
	Administration		77,654
	Legal		3,153
	Cost of Capital		22,950
	To adjust home office cost allocation HIM-15-1, Section 2304 State Plan, Attachment 4.19D		
5	Nonallowable	20,285	
	Dietary		15,610
	Medical Supplies		4,675
	To remove special (ancillary) services reimbursed by Medicare State Plan, Attachment 4.19D		

**ST. GEORGE HEALTH CARE CENTER, INC.**  
Adjustment Report  
Cost Report Period Ended September 30, 1999  
AC# 3-STG-J9

<u>ADJUSTMENT NUMBER</u>	<u>ACCOUNT TITLE</u>	<u>DEBIT</u>	<u>CREDIT</u>
6	Housekeeping	476	
	Maintenance	301	
	Administration	339	
	Legal	6	
	Utilities	298	
	Taxes and Insurance	414	
	Cost of Capital	808	
	Nonallowable		2,642
	To reverse DH&HS adjustment to remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
7	Nonallowable	2,041	
	Housekeeping		476
	Maintenance		300
	Administration		223
	Legal		1
	Utilities		299
	Taxes and Insurance		291
	Cost of Capital		451
	To remove indirect cost applicable to a non-reimbursable cost center HIM-15-1, Section 2102.3 State Plan, Attachment 4.19D		
8	Nonallowable	531	
	Cost of Capital		531
	To adjust capital return State Plan, Attachment 4.19D		
		<hr/>	<hr/>
	TOTAL ADJUSTMENTS	\$296,568	\$296,568

Due to the nature of compliance reporting, adjustment descriptions and references contained in the preceding Adjustment Report are provided for general guidance only and are not intended to be all-inclusive.

**ST. GEORGE HEALTH CARE CENTER, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1999  
AC# 3-STG-J9

Original Asset Cost (Per Bed)	\$ 15,618
Inflation Adjustment	<u>2.3156</u>
Deemed Asset Value (Per Bed)	36,165
Number of Beds	<u>88</u>
Deemed Asset Value	3,182,520
Improvements Since 1981	518,472
Accumulated Depreciation at 9/30/99	<u>(926,688)</u>
Deemed Depreciated Value	2,774,304
Market Rate of Return	<u>.060</u>
Total Annual Return	166,458
Return Applicable to Non-Reimbursable Cost Centers	(666)
Allocation of Interest to Non-Reimbursable Cost Centers	<u>120</u>
Allowable Annual Return	165,912
Depreciation Expense	84,911
Amortization Expense	327
Capital Related Income Offsets	(2,392)
Allocation of Capital Expenses to Non-Reimbursable Cost Centers	<u>(451)</u>
Allowable Cost of Capital Expense	248,307
Total Patient Days (Minimum 96% Occupancy)	<u>30,835</u>
Cost of Capital Per Diem	\$ <u><u>8.05</u></u>

**ST. GEORGE HEALTH CARE CENTER, INC.**  
Cost of Capital Reimbursement Analysis  
For the Cost Report Period Ended September 30, 1999  
AC# 3-STG-J9

6/30/89 Cost of Capital and Return on Equity	
Capital Per Diem Reimbursement	\$ 6.57
Adjustment for Maximum Increase	<u>3.99</u>
Maximum Cost of Capital Per Diem	\$ <u>10.56</u>
Reimbursable Cost of Capital Per Diem	\$ 8.05
Cost of Capital Per Diem	<u>8.05</u>
Cost of Capital Per Diem Limitation	\$ <u>-</u>

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